

# Economic & Revenue Forecast Council

Improvements, Efficiencies, and Cost Savings:  
Giving the Taxpayer Value for Money

July 2010  
Olympia, Washington



**Washington State Economic and Revenue Forecast Council**



# Summary

- ERFC: Structure and purpose
- Process Improvements
  - Internal: data, forecast processes
  - External: outreach, information network
  - Deliverables: focus on clarity and relevance
- Efficiencies
  - Cost Savings
    - Information Technology
    - Printing
    - Travel
    - Others

Improvements,  
Efficiencies &  
Cost Savings

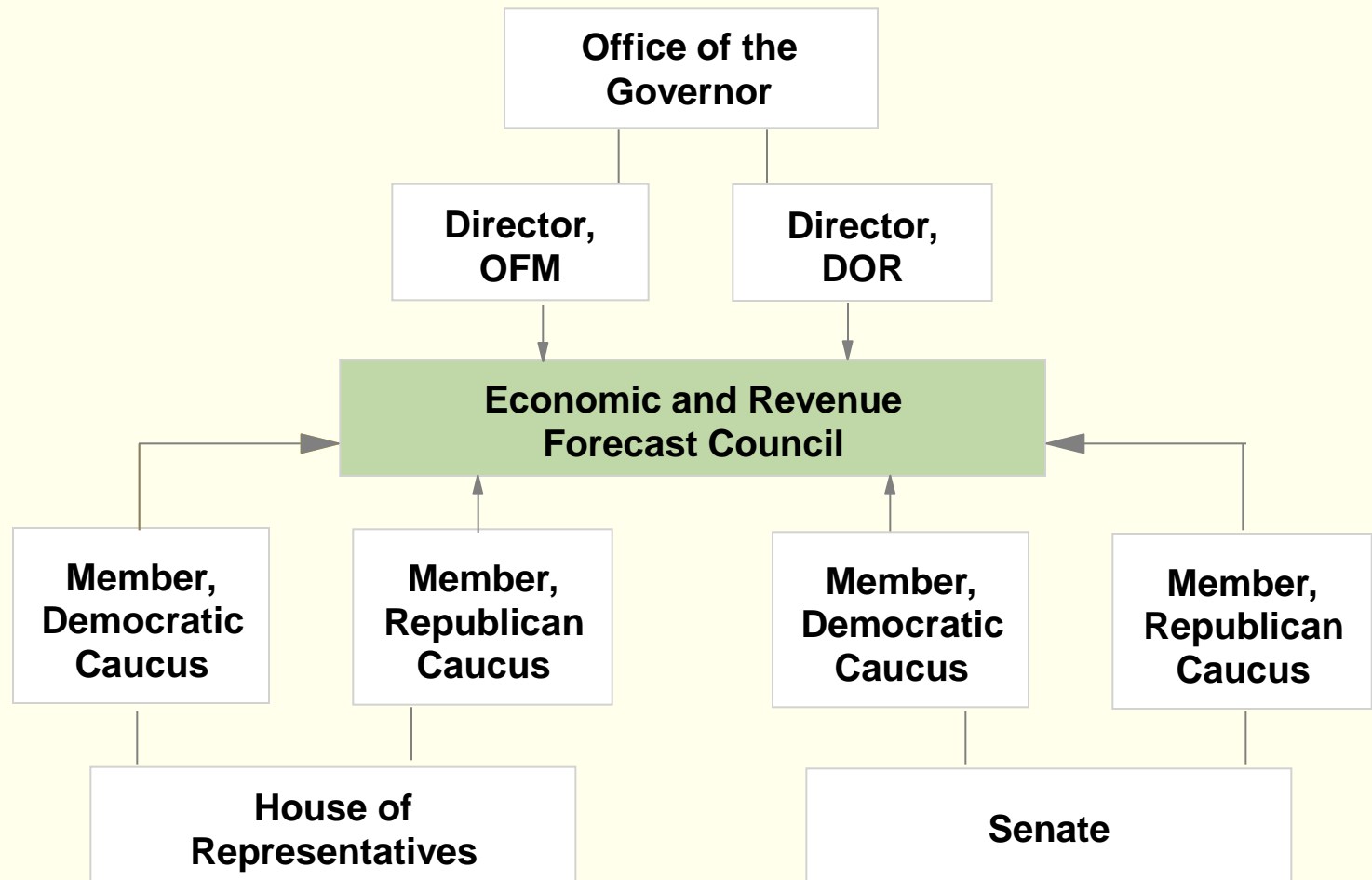
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# The Economic and Revenue Forecast Council is a bipartisan organization with a non-partisan Executive Director

## ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990



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# It was created under RCW 82.33

- The economic and revenue forecast council shall oversee the preparation of and approve, by an affirmative vote of at least four members, the official, optimistic, and pessimistic state economic and revenue forecasts prepared under RCW 82.33.020. *If the council is unable to approve a forecast before a date required in RCW 82.33.020, the supervisor shall submit the forecast without approval and the forecast shall have the same effect as if approved by the council.*
- Four times each year the supervisor shall prepare, subject to the approval of the economic and revenue forecast council under RCW 82.33.010 :
  - (a) An **official** state economic and revenue forecast;
  - (b) An unofficial state economic and revenue forecast based on **optimistic** economic and revenue projections; and
  - (c) An unofficial state economic and revenue forecast based on **pessimistic** economic and revenue projections.
- The supervisor shall submit forecasts on or before November 20th, February 20th in the even-numbered years, March 20th in the odd-numbered years, June 20th, and September 20th. All forecasts shall include both estimated receipts and estimated revenues in conformance with generally accepted accounting principles as provided by RCW 43.88.037.
- All agencies of state government shall provide to the supervisor immediate access to all information relating to economic and revenue forecasts.



# ERFC provides a valuable service that is not available elsewhere

- Washington's unique non-partisan revenue forecasting process fosters bipartisan agreement on tax revenues, and promotes budget stability
- The agency maintains a high level of credibility in both the executive and legislative branches of government
- ERFC's independent economic and revenue forecasts are one of the reasons the state's financial management system is rated highly by debt rating agencies – lowering the state's cost of borrowing
- ERFC is consequently rated very highly in the Priorities of Government process

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# Data improvements

- Developed access to national macroeconomic data, real time
- Created internal database of state economic data
- Acquired residential and non-residential construction contract data for Washington
- Subscribed to Washington State Global Insight forecast
- Collaborated with OFM & ESD to develop a process to vet state employment data
- Developed an informal information network of people "in the trenches"

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# Forecast process improvements

Provided  
an extra  
revenue  
forecast in  
2009 at  
the  
request of  
budget  
writers

- Use information from Blue Chip forecasts and NYMEX oil futures
- Reduced over-sensitivity of U.S. & Washington economic forecasts to last observation
- Use latest data and economic forecast for revenue forecast
  - Update preliminary economic forecast with new Global Insight and Blue Chip forecasts released before the revenue forecast
- Reality check – ground up forecasting

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# Agency outreach has helped build a ground-up information network

- Excluding statutory presentations, ERFC presentations increased over 850% in 2009 compared to 2008
- Key contacts made with local officials, businesses, communities
- We have tracked audience satisfaction with a free online survey
  - Overall quality: 73% rated presentations as "Excellent"; None rated them poor
  - Slide format changed in response to survey data; improving "Excellent" slide score from 36% to 66%





# You don't have to take our word on it....

Thank you for providing the Senate with very valuable information at a critical time to our State during our hearing last week.

*Jean Berkey, Washington State Senator*

...does a great job of explaining this complicated data in an understandable manner

*Joan Neff, DOR Manager's Meeting*

He clarified issues and circumstances that I have been hearing about in the news.

*Bill Watson, Tri-Cities Chamber of Commerce*

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# Improvement in deliverables

**Economic &  
Revenue  
Notebooks**

**Monthly  
Collection  
Reports**

**Forecast  
Book**

**Slides**

**Website**


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- Focus on clarity and relevance
  - Identify key variables
  - Pay greater attention to those key variables in analysis
  - Keep language simple, direct, and to the point
- Resist the urge to do an information dump
- Allow causal reader to benefit from bullet points, outparas, executive summary
- Provide all details, but in data appendix
- Focus on standardization and branding



# Monthly revenue collection report includes economic context and commentary

## Before

  
STATE OF WASHINGTON  
ECONOMIC AND REVENUE FORECAST COUNCIL  
Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

March 10, 2008

TO: Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Craig Pridemore  
Representative Ed Orcutt  
Victor Moore, CFM, Director  
Cliff Holmerom, DOR, Director

FROM: Chuck Grubb, Senior Revenue Forecaster

SUBJECT: MARCH 10, 2008 REVENUE COLLECTION REPORT


General Fund-State (GFS) tax payments totaled \$868.4 million in the February 11, 2008 - March 10, 2008 collection period. Receipts for the month were \$10.7 million (1.2 percent) higher than expected. Revenue Act receipts (sales, B&O, use and public utility tax payments) were higher than expected for the period, more than offsetting weaker than expected property tax payments. Real estate excise tax payments were virtually right on the estimate for the month. There were no known special factors this period. GFS collections are \$10.6 million (1.2 percent) higher than expected since the February 2008 forecast. Despite a continuing barrage of bad economic news, so far the February revenue forecast appears to be on track.

**Revenue Act Collections:**

- As expected revenue growth was weak again this month, although not as weak as expected. Revenue Act receipts this period (primarily January 2008 business activity) were only 3.5 percent higher than a year-ago. Last month year-over-year growth was 3.4 percent while two months ago it was 8.8 percent. The forecast assumed a year-over-year increase of 2.0 percent for the month.
- Spending continues to decelerate. After growing 8.9 percent in the first half of calendar 2008, spending (as measured by Revenue Act tax payments) slowed to 5.9 in the second half of the year. Growth the last two months averaged only 3.5 percent.
- Preliminary industry detail of tax payments for the February 11-March 10 period from electronic filers again shows weakness in most sectors:
  - Tax payments by firms in the retail trade sector were 3.4 percent below the year-ago level. Last month tax payments in the retail trade sector were down 0.7 percent. Until last month, this sector had not declined on a year-over-year basis since the last recession.
  - As was the case last month, the weakness in retailing was widespread with six of twelve sectors reporting declines including: motor vehicle dealers (-7.6 percent), electronic and appliance stores (-12.8 percent), and general merchandise retailers (-9.4 percent).
  - Several non-retailing sectors reported large year-over-year declines in tax payments including: finance and insurance (-10.0 percent) and utilities (-16.4 percent).
  - There were some bright spots: manufacturing was up 14.3 percent; last month payments from the manufacturing sector declined 12.1 percent. Construction again increased (+4.0 percent), but appeared not as strong as in recent months.

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## After

  
ECONOMIC & REVENUE UPDATE

13 JULY 2009

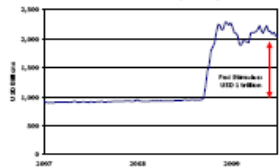
U.S.

The economy is passing through an early summer lull, as the winds that were lifting it toward recovery appear to be flagging. Yet, this is not something that was unanticipated in our June forecast. It is normal for an economy headed for a trough after a long and hard recession, to pause for breath. We continue to believe that the recession will bottom out by the third quarter of this year, followed by a slow U-shaped recovery. There is a considerable amount of stimulus in the pipeline that has yet to work its way through the system and many of the "green shoots" we noticed in the spring remain green. Whether or not June will turn out to be the pause that refreshes, or the first sign of another leg down, only time will tell. We believe it is likely to be the former.

Both equity and bond markets are looking for direction. Expectations of a recovery have been clouded by doubt. Both the Dow and the S&P 500 are down about 7% from their peak on June 12, but are still 24% and 30% higher, respectively, from their March 9 low. Investors appear to be anxious prior to the second quarter earnings season, and much depends on the forecasts of future earnings that companies provide at that time. The bond market sell-off in late May that saw the 10-year treasury yield rise by close to 40 basis points has given way to a rally. Here too, expectations of a quick recovery have been overtaken by doubts about the strength of the recovery. The 10-year treasury's yields have now dropped over 60 basis points since June 16.

Economic reports on employment have disappointed. In June the economy shed 467,000 jobs, which even after accounting for the reductions in temporary census workers was higher than May's revised 322,000. The trend in job losses, however, continues to slow. Even June's disappointing number was

The Fed balance sheet has grown significantly



much better than the first quarter's average monthly loss of 691,000 jobs.

Despite investor skittishness and expectations getting ahead of reality, the economy remains on track for a recession trough by the third quarter. Of the USD 787 billion federal fiscal stimulus, only USD 56 billion have been disbursed through the second quarter. It is expected that another USD 200 billion will be spent in the third quarter. The Federal Reserve has increased the size of its balance sheet by USD 1 trillion (see figure), effectively pumping that amount into the economy through innovative quantitative easing. This too is working its way through the system.

There are more reasons to be optimistic. Trade data for May provided an upside surprise. U.S. exports increased 1.6% (SA) while imports fell by 0.6%. Consequently, the trade deficit fell from April's USD 28.8 billion to USD 26 billion, its lowest in a decade. This will give a boost to second quarter GDP, which may well turn out to be stronger than we had anticipated in our June forecast. Also with both Chrysler and GM out of bankruptcy, published automotive production plans call for a sharp increase in production in that industry starting in July. This is further borne out by increases in truck tonnage indices in May - an indication that parts and supplies are being shipped to plants.

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# The forecast book now provides greater clarity and a focus on key variables

Use of bulleted summaries and outparas to allow a quick skim, or a lengthier read

## Before

### Executive Summary

#### U.S. Economic Forecast

The September 2008 economic and revenue forecast incorporated the preliminary GDP estimate for the second quarter of 2008. According to the preliminary estimate, real GDP growth jumped to 3.3 percent in the second quarter from 0.9 percent in the first quarter and -0.2 percent in the fourth quarter of 2007. Growth of final sales of domestic product was an even stronger 4.8 percent in the second quarter. The apparent strength in the second quarter was the result of strong export growth and import substitution rather than strong domestic demand. Net exports added more than three percentage points to GDP growth. Exports rose at a 13.2 percent rate and imports fell at a 7.6 percent rate. In spite of the "rebate" checks that mostly arrived in the second quarter, final sales to domestic purchasers rose only 1.5 percent following a gain of just 0.1 percent in the first quarter and a 0.1 percent decline in the fourth quarter of 2007. Consumer spending grew at only a 1.7 percent rate in the second quarter. Consumer purchases of durable goods fell at a 2.5 percent rate due to a 19.3 percent decline in motor vehicles and parts. Once again the weakest sector was fixed investment which fell at a 2.5 percent rate in the quarter due mainly to a 15.7 percent drop in residential fixed investment. Government consumption and investment spending rose at a 3.9 percent rate in the second quarter, led by a 7.4 percent increase in defense spending.

Payroll employment declined at a 0.6 percent rate in the second quarter compared to a 0.3 percent decline in the first quarter while the unemployment rate edged up to 5.33 percent from 4.93 percent. The Consumer Price Index rose 5.0 percent in the second quarter following a 4.3 percent rise in the first quarter. The high headline inflation rate was due to energy costs which rose at a 18.5 percent rate in the first quarter and a 28.1 percent rate in the second quarter. Core CPI inflation, which excludes food and energy, rose at a 1.9 percent rate in the second quarter. Housing starts declined at a 10.8 percent rate in the second quarter to 1,023 million units from 1,053 million units in the first quarter. The mortgage rate increased to 6.09 percent in the second quarter from 5.87 percent in the first quarter. The Federal Reserve left its target for the federal funds rate at 2.00 in June and September.

The "rebate" payments will total \$84 billion in fiscal 2008. Oil prices have fallen back to around \$110 per barrel, after peaking at \$150 in mid-July. We have lowered our projected second-half 2008 average price (WTI) to \$118 per barrel and assume an average \$110 per barrel in 2009. We assume that the Fed will keep the federal funds rate at 2.00 percent through mid-2009. It then begins a tightening cycle, returning the funds rate to 3.50 percent by the end of 2009 and 4.75 percent by the end of 2010. With growth around the world weakening, the dollar has passed its low point against the euro, sterling, and the Canadian dollar. We project GDP growth in the United States' major-currency trading partners at just 1.1 percent in both 2008 and 2009, down from 2.8 percent in 2007. Growth for other trading partners should ease from 6.1 percent in 2007 to 5.1 percent in 2008 and 4.6 percent in 2009. The forecast assumes that Congress

Executive Summary

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September 2008

## After

### Executive Summary

- The freefall stage of the decline in the U.S. economy, in the Washington economy, and in Washington revenues appears to be over. Most measures of economic activity and revenue have already bottomed or are in the process of bottoming out.
- Credit conditions are easing but still are still tight. The banking industry's health has improved, although parts of it are still vulnerable.
- We expect a slow, "U-shaped" recovery, following a turning point in the third quarter of this year. Job losses will continue through the end of this year and the unemployment rate will continue to rise through mid-2010.
- Though Washington entered the recession later than the U.S., it will emerge from the recession about the same time and with stronger growth.
- The modest job cuts expected in aerospace and software will have a minimal impact. The hardest hit sector has been and will continue to be construction. Residential construction is nearing a trough, but the downturn in non-residential construction is still far from over.
- The freefall in revenue seems to be moderating. The state's major tax sources (sales, use, business and occupation) have leveled off and the real estate excise tax collections have turned up.
- Effective July 1, 2009, the definition of General Fund - State has changed to what was previously called General Fund - State and Related Funds.
- The June 2009 General Fund State forecast for the 2007-09 biennium is \$27.7 billion, which is \$185 million lower than expected in the March forecast. The forecast for the 2009-11 biennium is \$29.8 billion, which is \$297 million less than expected in the March forecast. The 2009-11 forecast change includes \$226 million in new revenue as a result of legislation, excluding the change in definition.

#### U.S. Economic Forecast

The worst of the recession appears to be over

The worst of the "Great Recession" is behind us. Activity continues to decline, but at a slower pace, bringing to an end the scary free-fall we experienced in the late fall and winter. Credit conditions have eased significantly since the freeze in

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# Before





# Website modernized to enhance function and usability

The website redesign was at no additional cost to taxpayers – it was paid for out of agency savings elsewhere

## Before



## After



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# The new website has improved functionality

- Better messaging
- Easier to find things
- Easier to manage content, maintain web page
- Easier to contact our office with questions, feedback, and requests for presentations
- Ability to track web usage
  - Pages viewed more frequently?
  - Agencies using our information more intensively?
- Updated webpage architecture designed by DIS professionals

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# Cost savings in information technology

- Reduced capital intensity and improved cash flow management
  - Replaced 10 computers (7 desktops, 3 laptops) with 5 laptop-docking station configurations
  - Extended the replacement cycle
  - Leased the equipment through bulk DIS rates – better terms, and more level cash flow management
- Exploring bulk purchase rates for econometric software, by leveraging DIS purchasing power
- Canceled all print subscriptions and moved to free or cheaper online access
- Reduced DIS bill by –
  - Removing phone lines not in use
  - Correcting errors in billing

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Cost Savings

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# Cost savings in printing

- Printed deliverables are the exception not the norm
- Web based delivery of all agency publications
- Individual printers replaced with one networked printer
  - Implemented recommendations of print assessment that was conducted
  - Allows secure printing of confidential documents
- Default set to print double-sided on printer
- Adobe PDF writer rather than networked printer set as default printer
  - maintains documents for future reference without the expense of printing



# Cost savings in travel

- Implemented more stringent travel policies than those in the Statewide Administrative and Accounting Manual (SAAM)
  - Reimburse meal receipts up to per diem
  - Require use of motor pool vehicle in place of personal vehicle mileage reimbursements
  - Request inviting organizations to help with incurred travel costs as we do not charge a speaker fee
- Out-of-State travel not permitted even prior to the statewide ban
- All other travel must be approved in advance
- Encourage use of telephone conferencing where possible



# Key questions before purchasing...

- Is it necessary to do business?
- Is it available through GA's surplus?
- Where can I get the best price?
  - not necessarily the state contract

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## ...leads to more cost savings

- Business necessity is sole consideration, not personal preference, when ordering supplies
- Check with the GA's surplus program in advance of any furniture orders
  - Check with larger agencies surplus programs
  - Trade with other agencies when the opportunity exists
- All purchases researched, and when appropriate exception letters are used to buy off-contract
- Reduced shipping and handling costs by limiting purchases to once a quarter



# Other cost saving strategies

- Limited paper stock to two colors
  - avoids building excess inventory of half-reams of paper stock
- Use electronic letterhead instead of purchasing pre-printed paper
- Everything is re-used
  - Binders; Index tabs; Filing folders
  - Wasted print paper is recycled for use in taking phone messages, replacing costly pre-printed pads
- Scanned documents and emailed instead of long distance faxes
- Reduced incoming mail costs by unsubscribing from unnecessary newsletters and catalogs



# FY 10 savings show that small steps can add up to significant amounts

## State Auditor's Report

FY05 - FY09

*"...the Council's internal controls were adequate to safeguard public assets"*

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### **ERFC estimated annual Savings**

### **FY 10**

Computers and telecommunications	\$3,000
Incoming/Outgoing mail costs	\$500
Reduced supplies and materials	\$600
Cutting print subscriptions	\$600
Printing/Printer consumables	\$690
Employee Development and Training	\$3,000
Surplus items (New – surplus cost)	\$550
Reusing items	\$50
Shipping and handling costs	\$100
Travel reductions	\$6,000
<b>Total Estimated Savings</b>	<b>\$15,090</b>



# Conclusion

- ERFC provides an essential service for the state budgeting process and is highly rated in the Priorities' of Government
- Due to improvements and efficiencies recently implemented, ERFC is providing greater value to taxpayers for the money invested
- ERFC has and is willing to assume more responsibilities to help the State in areas where non-partisan economic analysis is needed

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# Contact Us

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**Submit your questions electronically at:**

**<http://www.erfc.wa.gov/about/contact.shtml>**

**Request a presentation on Washington's economy at:**

**<http://www.erfc.wa.gov/presentations/requestPresentation.shtml>**

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